Thank you for your letter regarding the role of community pharmacists in the new Medicare drug benefit. I want to assure you I consider community pharmacies to be an important partner in making the drug benefit successful and providing needed medications to our 41 million beneficiaries.

You write about provisions on preferred pharmacies found in the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) and recent regulations issued by the Centers for Medicare & Medicaid Services, and I want you to know I hear your concerns. The MMA has several interlocking provisions that are important to note here. First, the law requires health plans to construct a broad network of retail pharmacies that provide convenient access to Medicare beneficiaries. In the CMS regulation, we defined this convenient access standard to mean that in urban areas, the network must be broad enough so that 90 percent of beneficiaries live within 2 miles of a network pharmacy; for suburban areas, 90 percent must live within 5 miles, and for rural areas, 70 percent must live within 15 miles. I believe that in small towns like Gunnison, Utah, the plans will be very interested in signing up your pharmacy for their networks so they can meet this standard. Second, we are expecting robust competition among prescription drug plans in all areas, including all towns in Utah. Therefore, plans will be under strong pressure to enable beneficiaries to get their prescriptions filled conveniently, at pharmacies they know well. Third, the law allows any pharmacy willing to meet a plan's terms and conditions to join that plan's network, so even if a plan does not need to include a particular pharmacy in order to meet the convenient access standard, the pharmacy has an opportunity to participate. Finally, as you suggest, the law also allows plans to set up preferred pharmacies that feature reduced cost sharing for beneficiaries.

Let me address your concern that preferred pharmacies could negatively impact your business. In practice, there will be several constraints on the plans' use of this preferred pharmacy option. To start, CMS will review the plan's proposal for preferred pharmacies within its network in order to minimize the potential for geographic discrimination. CMS closely scrutinizes such proposals to ensure they do not have a detrimental impact on beneficiaries. This review is consistent with a general rule in the Medicare drug benefit that no plan feature can be designed with discrimination in mind, so as to substantially discourage certain groups of beneficiaries from enrolling. Finally, there is a significant constraint on the cost-sharing differential that plans can establish to encourage people to use their preferred pharmacies.

In their bids to CMS, plans have to show that their co-pays or co-insurance percentages during the drug benefit's initial coverage phase average out to 25 percent of the cost of the drugs. This average covers the plans entire expected utilization, so it includes not just generic, preferred brand, and non-preferred brand co-pays, but also those co-pays, in preferred and other pharmacies. This means that when a plan features lower co-pays at preferred pharmacies, this would tend to lower the average. Mathematically, there are strong limits on how big a co-pay difference the plan can set up and still meet that 25 percent average overall.

Your letter also touches on the role of mail-order pharmacies in the new Medicare drug benefit. While we believe mail order can present a choice in delivery options for cost-effective alternative to deliver chronic, recurring medications, Medicare plans will not be allowed to require

that beneficiaries use mail-order pharmacies to get extended supplies of drugs. Congress and the Administration recognized that local pharmacies play a valuable role beyond just dispensing drugs – you provide countless hours of counseling and answer countless questions on the proper use of that medication. Consequently, the MMA has a specific provision that the extended supplies that are available at mail order (usually a 90-day supply) will be available at retail pharmacies that have contracted with a plan to provide an extended supply of drugs. The law also notes that the beneficiary has to pay any differential in charge between retail and mail order. In recently released guidance, CMS clarified its final rule to show that retailers such as yourself will be given an opportunity to match the mail order price, further encouraging beneficiaries to fill the prescription in your store. We will work with plans and retailers to help make this happen.

Thank you again for your interest in the Medicare program. I look forward to 2006 when our Medicare beneficiaries will have access to the new prescription drug program.